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WHAT ARE THE REQUIREMENTS OF FOREIGN CAPITAL?

By RALPH M. BATEMAN
President, Confederation of British Industry

British firms have always been to the fore in foreign investment in the USA. The book value of UK direct investments is around \$5½ billion, greater than those of any other single country, and this figure is understated. What does it consist of? General manufacturing now accounts for about half the total value of all foreign direct investments in the States, while petroleum has dislodged insurance and other financial areas from second place. British figures mirror this trend.

Ralph Bateman

An ambivalence has crept into official and Congressional attitudes toward foreign investments, however. Misgivings have been demonstrated by a rash of bills drafted by Congressmen. These range from demands that restrictions should be placed upon the foreign-owned portion of a US company's voting stock to proposals for a comprehensive government study of foreign investment in the US.

The reasons for these misgivings are undoubtedly associated with the growing attractiveness of investments in the US on cost grounds and low company price-earnings ratios. The emergence of the Japanese as an exporter of capital and the possibility of major acquisitions by Middle East oil producing countries have exacerbated these feelings. US firms have felt themselves vulnerable, which added to the disquiet.

My own belief is that this disquiet marks a rather belated movement by the US into line with other countries concerned about the spreading influence of multinational corporations in their territories. I do not anticipate any serious general constraints. There is a basic conflict between tight restrictions on foreign investment here and the need to foster the larger overseas interests of US business.

But the uncertainties do perplex the foreign investor. Official US policy is to regard foreign direct investment as valuable and desirable, and there are virtually no laws which are designed or enforced that discriminate against foreign investment. Taken together, however, the laws and regulations which do exist—however non-discriminatory—form a web in which foreign businessmen can become so entangled as to inhibit their investing here.

By PETER A. WAHL
Paris representative, J. Henry Schroder & Co.

I think it fair to say that the great majority of European corporations suffer serious inhibitions when it comes to investing in the US. This may seem somewhat ridiculous, yet the fact remains that the volume and diversity of the US market, the reputation American corporations now have for size, organization, and competitiveness, disturbs many inexperienced Europeans, who have the sinking feeling that they would meet all sorts of problems in controlling their US subsidiary.

However, many foreigners believe that the US is one of the last remaining bastions of capitalism, and that in these times of commodity shortages, two commodities should never be in short supply. I refer to responsibility and confidence.

Peter Wahl

At the end of 1973, long-term American direct investments abroad were estimated to be roughly \$120 billion, and foreign direct investment in the US \$17.7 billion. I think it fairly obvious that existing foreign investments in the US can hardly be considered a threat—neither due to their size, nor to any concentration in any industry.

What of the future behavior of foreign investors in the States? It is fair to say that investments will increase, steadily if not spectacularly. I can think of three reasons why Europeans are attracted to the US. First, the dollar, although not cheap, still appears undervalued. Second, the prices asked for holdings in US corporations appear reasonable now, and it is easier to obtain the information one needs. And third, European companies are fed up with the so-called stop-and-go tactics of their own authorities, which made forward planning hazardous.

Apart from a theoretical threat from the Middle East, foreign direct investment here is a positive thing. Whether starting from scratch or buying existing companies, foreigners contribute cash and technical expertise, create employment, and reduce savings requirements. In Europe, where the American contribution was only grudgingly accepted, this was of immense value. Just as American companies abroad are meticulous in being law-abiding and constructive members of their community, there is no reason to believe that foreigners in the US will not behave in an equally responsible manner.

On October 21, 1974, the New York Office conducted an educational symposium for investment bankers. Four renowned panelists offered insights on how foreign capital looks at investing in the United States. Excerpts from their discussion appear below.

By ANTHONY ASSEILY
Managing Director, J. Henry Schroder & Co., Beirut

It is estimated that Middle Eastern oil revenues in 1974 will be between $65 and $75 billion, up from $14 billion in 1973. This dollar increase is from a 13 percent increase in production. It is expected that a large part of these revenues will remain unspent, and the estimates of the accumulated surplus by 1980 range from $200 billion to $600 billion.

Apart from Kuwait, none of the surplus oil countries has the financial institutions needed to channel these funds. They were caught unprepared in the same way consuming nations were—but on the other side of the fence. So they are not quite sure themselves how they ought to invest their surplus, and one ought to analyze what they are likely to want to do with it after they have met the needs of the Arab world and of developing countries.

Anthony Asseily

We should understand that oil is a depleting asset; it is not replaceable. These countries are producing more oil than they need for themselves, because oil is required by the world's industry. So it is essential to them that income-generating assets are acquired to replace the revenue that they will not get when the oil is depleted.

Their investment policy can take many forms. (1) Investment in safe, low-yielding but capital growth situations which would protect the fund holder against money erosion through inflation. Real estate might be suitable for this. (2) A downstream investment in the oil industry. But given the limited life of oil wells, it makes sense for surplus countries to diversify their sources of income. (3) Investment in other industries that would be of help in their domestic economies. If an assembly plant of trucks or tractors exists, for example, there is a preference to invest in those firms that supply parts or accessories for those plants. This argument seems to have influenced the Iranians in buying into Krupp in Germany.

But oil consuming countries cannot advocate such recycling of oil revenues, and then stop it or put unacceptable conditions in its way. And, if they refuse to meet oil producers on this issue of investment, they cannot expect producers to indulge the oil consumers' preference that producers sell their oil rather than conserve it.

By HITOSHI TANAKA
Senior Vice President, Yamaichi International (America)

Japanese direct investment in the United States has become active only since 1972. Before that time it represented only one to two percent of the total outstanding investment in the US. In contrast, new investment from Japan during 1972 was the biggest among all countries with $109 million, jumping from $19 million in 1971.

Until recently, most investment from Japan took the form of capital contribution by Japanese corporations to US subsidiaries primarily engaged in sales and other services. Today, acquiring US companies, establishing joint ventures with American partners, and building manufacturing plants, are increasingly popular.

The outlook of investment from Japan will be influenced by the problems Japan faces today. First, there is a shortage of natural resources: petroleum, coal, iron ore, pulp, and lumber. So Japanese industry is becoming an active investor in countries which produce the natural resources it needs. Second, real estate prices and the pollution problem are so serious that Japanese companies are seeking to expand in other nations, and the US certainly seems to have abundant land. Third, labor costs in Japan by 1980 may well pass those of the United Kingdom and Germany and come close to the US, making abundant and experienced American labor more attractive. Fourth, the growing sentiment of protectionism against imported goods may prompt Japanese companies to establish themselves in countries where their market is. Fifth, long-term capital is lacking in Japan, and the US offers an excellent financing market for expanding overseas business of Japanese companies.

Hitoshi Tanaka

Japanese customs do create problems with mergers or acquisitions, however, because to sell your company in Japan is not taken purely as a matter of business and economy, but rather as defeat and failure. In order to promote direct Japanese investment, therefore, particularly their acquisition of existing companies, you have to find an objective for a Japanese company. Rather than wait for them to come to you, you have to go to them and propose a concrete idea, and follow up closely and patiently so that they understand the objective.